

AN ECONOMETRIC ANALYSIS OF FEMALE DIRECTORS ON COMPANY  
PERFORMANCE: THE NONLINEAR EFFECTS

CHEN MING

MASTER OF SCIENCE (FINANCE)  
UNIVERSITI UTARA MALAYSIA  
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**AN ECONOMETRIC ANALYSIS OF COMPANY PERFORMANCE:  
THE NONLINEAR EFFECTS**

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Universiti Utara Malaysia**

**By**

**Chen Ming**

**810019**



Othman Yeop Abdullah  
Graduate School of Business

Universiti Utara Malaysia

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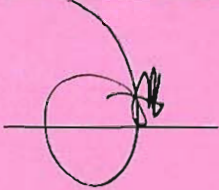
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*(Name of Supervisor)*

Tandatangan : 

*(Signature)*

**DR LIM HOCK EAM**

Senior Lecturer

School of Economics, Finance and Banking

UUM College of Business

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## ABSTRACT

The aim of this paper is to investigate an econometric analysis of nonlinear effects of gender composition of the board of directors on company performance using Malaysian initial public offering (IPO) companies. It also examines other factors of board composition which are independent directors and non-executive director. This study finds that gender diversity on board does not affect the company financial performance based on return on assets, return on equity and Tobin's Q using a sample of 123 IPO companies from the total population of 230 IPO companies which were listed during the period of 2005 to 2012. Results reveal that there is no significant relationship between the percentage of independent and non-executive directors on board and company financial performance, either linearly or nonlinearly, except at upper 80th percentiles of return on equity, this study covers strong evidence that more female directors on board are associated with significantly high return. This research contributes to the existing literature on gender especially in the context of IPO companies using econometric analysis. This is one of the rare comprehensive study uses multiple statistics tools to examine the factors of board composition using recent Malaysian IPOs data.

**Keywords:** Nonlinear analysis, Quantile regression, Female directors, Board composition, Corporate governance, Financial Performance, IPO, Malaysia.

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## TABLE OF CONTENTS

PERMISSION	i
ABSTRACT	ii
ACKNOWLEDGEMENTS	iii
TABLE OF CONTENTS	iv
CHAPTER ONE: INTRODUCTION	
1.1 Background	1
1.2 Problem Statement	3
1.3 Research Objectives	5
1.4 Research Questions	6
1.5 Significance of the Study	7
1.6 Organization of the Dissertation	8
CHAPTER TWO: LITERATURE REVIEW	
2.1 Introduction	10
2.2 Theoretical Reviews	10
2.2.1 Resource Dependence Theory	11
2.2.2 Human Capital Theory	13
2.2.3 Agency Theory	13
2.2.4 Diversity of Perspectives	14
2.2.5 Social Identity Theory	15
2.3 Empirical Reviews: Gender Diversity	16
2.3.1 Evidence from US	17
2.3.2 Evidence from Other Countries	21
2.3.3 Evidence from Malaysia	23
2.3.4 Summary of Literatures	23
2.4 Empirical Review: Board Compositions	26
2.4.1 Evidence of Board Size	26
2.4.2 Evidence of Non-Executive Directors	28
2.4.3 Evidence of Independent Directors	29
2.5 Conclusion	30
CHAPTER THREE: METHODOLOGY	
3.1 Introduction	32
3.2 Data Sources	32
3.2.1 Data Collection	33
3.3 Method	34
3.3.1 Multiple Regression Model Specification	35
3.3.2 Dependent Variables	36
3.3.3 Independent Variables	37
3.4 Hypotheses	39
3.5 Summary of Variables	41

CHAPTER FOUR: RESULTS AND ANALYSIS	
4.1 Introduction	43
4.2 Descriptive Statistics	43
4.3 The Trend of Financial Performance	45
4.4 Correlation and Regression Analysis	47
4.5 Nonlinear Regression Analysis	53
4.5.1 Quantile Regression Analysis	55
4.5.2 Simulation of Effect on Percentage of Female Directors	57
4.6 Conclusions of Hypotheses	60
CHAPTER FIVE: CONCLUSION, DISCUSSIONS AND RECOMMENDATIONS	
5.1 Conclusion	61
5.2 Discussions and Recommendations	63
List of Figures	
List of Tables	
References	
Appendices	
List of Figure:	
Figure 1.1: Statistics of Graduates in the Labour Force Malaysia	2
Figure 4.1: The Effects of Female Directors (%) on ROA	57
Figure 4.2: The Effects of Female Directors (%) on ROE	58
Figure 4.3: The Effects of Female Directors (%) on Tobin's Q	59
List of Tables:	
Table 2.1: Summary of Studies in the Literature Review	25
Table 3.1: Description of Variables	42
Table 4.1: Descriptive Statistics of Independent and Control Variables	45
Table 4.2: Mean and Median of ROA, ROE and Tobin's Q	47
Table 4.3: Correlation Matrix without Winsorizing Data	49
Table 4.4: Correlation Matrix after Winsorizing Data	50
Table 4.5: Multiple Regression	52
Table 4.6: Nonlinear Regression Analysis	55
Table 4.7: Quantile Analysis	56



## CHAPTER ONE: INTRODUCTION

### *1.1 Background*

Diversity in the workforce has been an issue received a tremendous amount of attention both in academia and in the popular press. Much of the initial focus and research relates to impediments promotion of women at lower and middle management levels, often referred to as a glass ceiling effect (Farrell & Hersch, 2005). Demographic diversity is a fact of modern organizational life, and the challenge of managing a diverse workforce is widely recognized as a key issue facing today's human resource managers and CEOs (Williams, Parker, & Turner, 2007).

Some studies explore the effect of gender diversity on board of directors of the organization on organizational performance (Adams & Ferreira, 2003, 2007, 2009; Erhardt, Werbel, & Shrader, 2003; Simith, Simith, & Verner, 2005). With corporate governance, the concept of diversity relates to board composition and the varied combination of attributes, characteristics and expertise contributed by individual board members in relation to board process and decision-making. In the widest sense, the various types of diversity that may be represented among directors in the boardroom include age, gender, ethnicity, culture, religion, constituency representation, independence, professional background, knowledge, technical skills and expertise, commercial and industry experience, career and life experience (Milliken and Martins, 1996). In particular, gender diversity refers to the proportion of males and females in the workplace, which can have an effect on how people interact

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